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United States General Accounting Office

GAO

Fact Sheet to the Chairman
Subcommittee on Health
House Committee on Ways and Means

December 1985

TAX POLICY

Information on the Stock and Mutual Segments of the Life Insurance Industry

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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

GENERAL GOVERNMENT
DIVISION

December 12, 1985

B-220675

The Honorable Fortney "Pete" Stark
Chairman, Subcommittee on Health
Committee on Ways and Means
House of Representatives

Dear Mr. Chairman:

Enclosed are 12 tables containing information on stock and mutual life insurance companies. We developed these tables in response to your request during our testimony before the Committee on Ways and Means on July 19, 1985. The tables also supplement a number of briefings given to you and your staff during the months of October and November 1985.

As you requested, the tables include statistical data on the stock and mutual segments of the life insurance industry with regard to insurance in force, insurance issued, investment yields, assets held, and taxes paid. The data used to develop these tables came entirely from publicly available information contained in the 1985 edition of Best's Industry Composite of Life-Health Companies published by the A.M. Best Company. This publication includes statistics for 129 mutual companies and 1,428 stock companies representing nearly 100 percent of the life insurance industry. Our arrays of data were not reviewed by or discussed with insurance industry representatives.

Our data covers calendar years 1980 through 1984. During this period, the life insurance industry was taxed under three different statutes. The first of these was the Life Insurance Company Income Tax Act of 1959. This act, in effect through 1981, provided that taxes, particularly for mutual companies, be calculated on net investment income. The second statute, the Tax Equity and Fiscal Responsibility Act of 1982, was effective for the years 1982 and 1983. Under this act, a stopgap variation of the 1959 act, taxes, to some extent, remained a function of net investment income. The third statute was the Deficit Reduction Act. This statute, effective in 1984, takes into account all aspects of a company's operation.

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The following are some of the highlights shown by the data:

—For 1984, the mutual companies held 53 percent of the industry's assets while the stock companies held 47 percent. (See tables 1, 2, and 3.)

—For 1984, the mutual companies held 41 percent of the premium income for the industry and 41 percent of the insurance in force. The stock companies held 59 percent in each of these categories. (See tables 1, 2, and 3.)

--For 1984, the mutual companies held 29 percent of the new insurance issued and 29 percent of the net gain after taxes. In each of these two categories, the stock companies captured 71 percent of the market segment. (See tables 1, 2, and 3.)

--From 1980 through 1984, the mutual companies increased their insurance in force and their new insurance issued by 40 percent. The corresponding figures for stock companies were 80 percent and 114 percent, respectively. (See table 4.)

--From 1980 through 1984, the mutual companies increased their net gain after taxes by 8 percent. The corresponding figure for stock companies was 52 percent. (See table 4.)

—For 1984, mutual companies' assets increased 8 percent; stock companies' assets increased 15 percent. Insurance in force increased 7 percent for both stock and mutual companies. Net gain after taxes increased 72 percent for mutuals and 35 percent for stocks. (See table 4.)

—From 1980 through 1984, the mutual companies' income taxes were 38 percent of the net gain before taxes. The corresponding figure for stock companies was 19 percent. (See table 5.)

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We hope you will find this information useful in your deliberations on the taxation of the life insurance industry. As agreed with your staff, we will make this information available to other interested parties upon request. If you or your staff have questions regarding the tables, please contact Mr. Natwar Gandhi of my staff on 376-0023.

Sincerely yours,

Johnny C. Finch

Johnny C. Finch
Senior Associate Director

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Table 1

Life Insurance Industry Financial Profile for
Calendar Year 1984
(in billions of dollars)

	Total Industry		Stock Companies		Mutual Companies	
	Amount	Percent	Amount	Percent	Amount	Percent
Assets	$729	100	$345	47	$384	53
Capital & Surplus	$50	100	$33	65	$18	35
Premium Income	$135	100	$80	59	$55	41
Insurance in Force	$6,519	100	$3,830	59	$2,688	41
New Insurance Issued	$1,244	100	$887	71	$357	29
Net Gain Before Taxes	$9.5	100	$6.3	66	$3.2	34
Taxes	$2.6	100	$1.4	55	$1.2	45
Net Gain After Taxes	$6.9	100	$4.9	71	$2.0	29

Note: In some cases, because of rounding, the totals of stock and mutual companies do not equal that of the total industry.

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Table 2

Life Insurance Industry Financial Profile
Stock Companies - Various Financial Categories
as a Percentage of Total Industry for
Calendar Years 1980 Through 1984

	1980	1981	1982	1983	1984
Assets	NA	NA	NA	46	47
Capital & Surplus	NA	NA	NA	62	65
Insurance in Force	52	57	58	59	59
New Insurance Issued	62	61	67	68	71
Federal Income Taxes Incurred	46	44	34	47	55
Premium Income	55	62	64	61	59
Net Investment Income	41	43	46	47	49
Total Income	54	61	62	60	60
Total Expenses, Benefits, Dividends to Policyholders, etc.	53	61	63	60	59
Net Gain Before Taxes	57	62	60	71	66
Increase in Capital & Surplus	NA	NA	NA	74	91
Net Gain After Taxes	63	69	68	75	71

Note: NA - Not Available.

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Table 3

Life Insurance Industry Financial Profile
Mutual Companies - Various Financial Categories
as a Percentage of Total Industry for
Calendar Years 1980 Through 1984

	1980	1981	1982	1983	1984
Assets	NA	NA	NA	54	53
Capital & Surplus	NA	NA	NA	38	35
Insurance in Force	48	43	42	41	41
New Insurance Issued	38	39	33	32	29
Federal Income Taxes Incurred	54	56	66	53	45
Premium Income	45	38	36	39	41
Net Investment Income	59	57	54	53	51
Total Income	46	39	38	40	40
Total Expenses, Benefits, Dividends to Policyholders, etc.	47	39	37	40	41
Net Gain Before Taxes	43	38	40	29	34
Increase in Capital & Surplus	NA	NA	NA	26	9
Net Gain After Taxes	37	31	32	25	29

Note: NA - Not Available.

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Table 4

Life Insurance Industry Financial Profile
Stock and Mutual Companies - Percentage Changes in
Various Financial Categories Over Two Calendar Year Periods

	Percentage Change 1984 over 1980		Percentage Change 1984 over 1983	
	Stock	Mutual	Stock	Mutual
Assets	NA	NA	+15	+8
Capital & Surplus	NA	NA	+14	+2
Insurance in Force	+80	+40	+7	+7
New Insurance Issued	+114	+40	+15	-3
Federal Income Taxes Incurred	+21	-14	+219	+134
Premium Income	+57	+31	+10	+18
Net Investment Income	+105	+48	+23	+13
Total Income	+73	+36	+17	+18
Total Expenses, Benefits, Dividends to Policyholders, etc.	+75	+38	+15	+17
Net Gain Before Taxes	+44	-1	+55	+90
Net Gain After Taxes	+52	+8	+35	+72

Note: NA - Not Available.

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Table 5

Life Insurance Industry Financial Profile
Stock and Mutual Companies
Taxes as a Percentage of Gain Before Taxes for
Calendar Years 1980 Through 1984
(in billions of dollars)

	1980	1981	1982	1983	1984	1980 - 1984
Total Industry						
Net Gain Before Taxes	$7.6	$6.4	$6.1	$5.7	$9.5	$35.3
Federal Income Taxes	$2.5	$1.7	$1.4	$0.9	$2.6	$9.1
Percentage	33	26	23	16	27	26
Stock Companies						
Net Gain Before Taxes	$4.4	$4.0	$3.7	$4.1	$6.3	$22.5
Federal Income Taxes	$1.2	$0.7	$0.5	$0.4	$1.4	$4.2
Percentage	27	19	13	11	22	19
Mutual Companies						
Net Gain Before Taxes	$3.2	$2.4	$2.5	$1.7	$3.2	$13.0
Federal Income Taxes	$1.4	$0.9	$0.9	$0.5	$1.2	$4.9
Percentage	42	39	38	30	37	38

Note: In some cases, because of rounding, the totals of stock and mutual companies do not equal that of the total industry.

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Table 6

Life Insurance Industry Financial Profile
Stock Companies - Insurance in Force by Type
as a Percentage of Total Industry for
Calendar Years 1980 Through 1984

	1980	1981	1982	1983	1984
Whole Life and Endowment	47	54	57	59	62
Term	67	70	70	69	69
Credit	77	76	74	76	76
Group	44	49	50	50	47
FEGLI & SEGLI[a]	54	52	54	58	55
Industrial	68	68	71	71	67
All Types	52	57	58	59	59

[a]Federal Employees' Group Life Insurance and Servicemen's Group Life Insurance

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Table 7

Life Insurance Industry Financial Profile
Mutual Companies - Insurance in Force by Type as a Percentage of Total Industry for Calendar Years 1980 Through 1984

	1980	1981	1982	1983	1984
Whole Life and Endowment	53	46	43	41	38
Term	33	30	30	31	31
Credit	23	24	26	24	24
Group	56	51	50	50	53
FEGLI & SBGLI[a]	46	48	46	42	45
Industrial	32	32	29	29	33
All Types	48	43	42	41	41

[a]Federal Employees' Group Life Insurance and Servicemen's Group Life Insurance

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Table 8

Life Insurance Industry Financial Profile
Stock Companies - New Insurance Issued by Type
as a Percentage of Total Industry for
Calendar Years 1980 Through 1984

	1980	1981	1982	1983	1984
Whole Life and Endowment	53	62	71	73	76
Term	66	68	67	65	69
Credit	94	94	91	93	94
Group	49	44	53	52	56
Industrial	88	86	85	88	86
All Types	62	61	67	68	71

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Table 9

Life Insurance Industry Financial Profile
Mutual Companies - New Insurance Issued by Type
as a Percentage of Total Industry for
Calendar Years 1980 Through 1984

	1980	1981	1982	1983	1984
Whole Life and Endowment	47	38	29	27	24
Term	34	32	33	35	31
Credit	6	6	9	7	6
Group	51	56	47	48	44
Industrial	12	14	15	12	14
All Types	38	39	33	32	29

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Table 10

Life Insurance Industry Financial Profile
Stock and Mutual Companies
Accident and Health Insurance Net Premiums Written by Type
as a Percentage of Total Industry for
Calendar Year 1984
(in billions of dollars)

	Total Industry		Stock Companies		Mutual Companies	
	Amount	Percent	Amount	Percent	Amount	Percent
Group	$32.4	100	$19.3	60	$13.1	40
Credit	$1.4	100	$1.3	92	$0.1	8
Non Cancelable	$1.7	100	$1.2	70	$0.5	30
Guaranteed Renewable	$4.2	100	$3.5	82	$0.8	18
All Other	$3.1	100	$1.8	61	$1.2	39
All Types	$42.8	100	$27.1	63	$15.7	37

Note: In some cases, because of rounding, the totals of stock and mutual companies do not equal that of the industry.

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Table 11

Life Insurance Industry Financial Profile
Stock and Mutual Companies
Assets by Type
as a Percentage of Total Industry for
Calendar Years 1983 and 1984

	1983		1984	
	Stock Companies	Mutual Companies	Stock Companies	Mutual Companies
Bonds	51	49	52	48
Preferred Stock	61	39	65	35
Common Stock	51	49	54	46
Mortgage Loans	40	60	44	56
Real Estate	31	69	27	73
Policy Loans	26	74	27	73
Other Assets	49	51	49	51
All Assets	46	54	47	53

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Table 12

Life Insurance Industry Financial Profile
Stock and Mutual Companies - Investment Yields for
Calendar Years 1980 Through 1984

	Stock Companies			Mutual Companies		
	Earned Rate on All Assets	Earned Rate on Policy Loans	Percentage of Total Admitted Assets[a] Represented by Policy Loans	Earned Rate on All Assets	Earned Rate on Policy Loans	Percentage of Total Admitted Assets[a] Represented by Policy Loans
1980	8.36	5.31	5.6	7.89	5.30	10.6
1981	8.94	5.28	5.8	8.21	5.27	11.7
1982	9.48	5.33	5.3	8.40	5.36	11.8
1983	9.63	5.34	4.6	8.64	5.39	11.2
1984	10.32	5.37	4.3	9.05	5.54	10.5

Stock Companies

Absolute Change (1980 - 1984)
Earned Rate - All Assets +1.96%

Percent Change (1984 over 1980)
Earned Rate - All Assets +23%

Mutual Companies

Absolute Change (1980 - 1984)
Earned Rate - All Assets +1.16%

Percent Change (1984 over 1980)
Earned Rate - All Assets +15%

[a]Admitted assets are assets of an insurer permitted by a state to be taken into account in determining its financial condition.

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